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Mr. Samuel L. Burke
Chair
AICPA Professional Ethics Division
Ethics-ExposureDraft@aicpa-cima.com

To Whom It May Concern,

We appreciate the opportunity to respond to the AICPA Professional Ethics Executive Committee (PEEC) exposure draft on the *State and Local Government Client Affiliates* (ET sec. 1.224.020). In responding, we have incorporated feedback on the specific aspects of the proposed interpretation request for comment as included below.

Requests for Comment

Request for Comment 1

We believe that the Committee should reconsider the language and context used when providing examples of circumstances or relationships with nonaffiliates that pose a potential threat to independence. While the examples in paragraph .06 clarify specific relationships or circumstances, we believe the specificity may lead to the user interpreting the examples as a checklist and; therefore, limiting the scope when considering threats to independence. Additionally, while we appreciate the Committee's efforts to take into consideration the cost/benefit of complying with this new requirement for certain upstream entities, we found it unclear as to when the user is required to look upstream for threats, as there is limited guidance about these entities beyond the examples provided. Lastly, we believe users would be better equipped to evaluate threats if the Committee provided a definition for nonaffiliates.

Request for Comments 2 and 3

We believe defining investments as affiliates may be confusing to members, particularly investments of affiliates. As a result, we believe that paragraph .03aiv would provide better clarity if the Committee removed Part IV from the definition of an affiliate and introduced the information within paragraph .03c to provide context to when investments are material to the member's evaluation.

To ensure investments are properly evaluated by the member, we propose that the Committee amend subsequent language to read “affiliates *and* investments.” We identified paragraphs .05 and .08 as being directly impacted by this proposal.

Furthermore, we believe that a revision to Part d would more clearly convey the objective. We propose the paragraph should read as follows:

“State and local government entities are entities whose generally accepted accounting principles standard setter is GASB. Examples of state and local government entities include general purpose governments and special purpose governments. Examples of general purpose governments include states, counties, cities, towns, and villages. Examples of special purpose governments include cemetery districts, school districts, universities and colleges, utilities, hospitals or other health care organizations, public airports, public housing authorities, financing authorities, public transportation systems, public employee retirement systems (PERSs), post-employment benefit plans, pension plans, public entity risk pools, external investment pools, Indian tribes, state tuition programs, and other special districts.”

Request for Comment 4

We believe that illustrations such as flowcharts will be helpful to users when implementing interpretations. Incorporating visual aids will provide users with a clearly defined path to implementation.

We appreciate the efforts of the AICPA Professional Ethics Division and the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact Zach Borgerding or me at (804) 225-3350.

Sincerely,



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